Railroad Retirement Information

U. S. Railroad Retirement Board

Office of Public Affairs 844 North Rush Street Chicago, Illinois 60611-2092

312-751-4777
312-751-7154 (fax)
www.rrb.gov

For Publication July 2000

RRB Financial Reports

The Railroad Retirement Board is required by law to submit annual financial reports and triennial actuarial valuations to Congress on the financial condition of the railroad retirement system, as well as annual financial reports on the railroad unemployment insurance system. These reports must also include recommendations for any financing changes which may be advisable in order to ensure the solvency of the systems. In June, the Board submitted its 21st Actuarial Valuation of the railroad retirement system's assets and liabilities and its financial report on the rail unemployment insurance system.

The following questions and answers summarize the findings of these reports.

1. How much money is in the Railroad Retirement Board trust funds?

By the end of Fiscal Year 1999, the net position of the railroad retirement trust funds was almost $18 billion, while the railroad unemployment insurance account balance was almost $110 million.

2. What was the overall finding of the 21st triennial actuarial valuation of the railroad retirement system's assets and liabilities?

The 21st triennial actuarial valuation was generally favorable and reflected an improvement over the last triennial valuation and the two most recent annual financial reports, which it attributed primarily to favorable economic and employment experience. The 21st valuation concluded that, barring a sudden, unanticipated, large drop in railroad employment, no cash-flow problems arise during the next 35 years. However, like previous railroad retirement financial reports, the valuation also indicated that the long-term stability of the system, under its current financing structure, is still dependent on future railroad employment levels.

Over the years, the main source of income to the railroad retirement system has been a payroll tax on railroad employment. The amount of income that the tax produces is directly dependent on the number of railroad employees covered under the system. Therefore, under current law, actual levels of railroad employment over the coming years will largely determine whether any financing changes are necessary to ensure the system's solvency.

3. What methods were used in forecasting the financial condition of the railroad retirement system?

The 2000 valuation projected the various components of income and outgo of the railroad retirement system under three employment assumptions, utilizing different patterns of change in the railroad work force for the 75 calendar years 1999-2073. The projections of these components were combined and the investment income calculated to produce the projected balances in the railroad retirement accounts at the end of each projection year.

Projecting income and outgo under the three different assumptions, the report indicated actuarial surpluses under the optimistic and moderate assumptions with no cash-flow problems during the 75-year period. An actuarial deficiency was indicated only under the pessimistic assumption; and, even under that assumption, no cash-flow problem arises until the year 2035.

The 20th valuation, released in 1997, also indicated an actuarial deficiency under a pessimistic assumption, but with a cash-flow problem arising in the year 2021.

4. Did the 21st valuation of the railroad retirement system recommend any railroad retirement payroll tax rate changes?

The report did not recommend any change in the rate of tax imposed by current law on employers and employees. The absence of projected cash-flow problems for at least 35 years under each employment assumption indicated that an immediate increase in tax rates is not required. However, because of future financing problems occurring under the pessimistic employment assumption, a decrease in tax rates was not recommended.

5. What were the findings of the 2000 report on the financial condition of the railroad unemployment insurance system?

The Board's 2000 railroad unemployment insurance financial report was also favorable, indicating that even as maximum benefit rates increase 50 percent (from $46 to $69) from 1999 to 2010,

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the unemployment insurance account remains solvent, even under the Board's most pessimistic employment assumption.

Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. However, the system's experience rating provisions, which adjust tax rates for changing benefit levels, and its surcharge trigger for maintaining a minimum balance help to ensure financial stability in the advent of adverse economic conditions.

6. What methods were used to evaluate the financial condition of the railroad unemployment insurance system?

The economic and employment assumptions used in the unemployment insurance report corresponded to those used in the report on the retirement system. Projections were made for various components of income and outgo under each of three employment assumptions, but for the period 2000-2010, rather than a 75-year period.

7. What did the report indicate regarding tax rates during the projection period?

Under the experience rating provisions, each employer's tax rate is determined by the Railroad Retirement Board on the basis of benefit payments made to the railroad's employees. The report predicted that, even under the most pessimistic assumption, the average employer tax rate remains well below the maximum throughout the projection period; but a periodic resumption of the surcharge required to maintain a minimum account balance was also predicted.

8. Did the 2000 report on the railroad unemployment insurance system recommend any financing changes to the system?

No financing changes were recommended at this time by the report.

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